NCUA Performance Report
1999

Mission Statement

Our charge is to foster the safety and soundness of federally insured credit unions and to better enable the credit union community to extend credit for productive and provident purposes to all Americans, particularly those of modest means.

We strive to ensure that credit unions are empowered to make the necessary business decisions to serve the diverse needs of their members and potential members. We do this by establishing a regulatory environment that encourages innovation, flexibility, and continued focus on attracting new members and improving service to existing members.

NCUA—Working with the cooperative credit union system to provide service to all segments of American society and to enable credit union members to thrive in the 21st century.

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SECTION I
EXECUTIVE SUMMARY

The National Credit Union Administration is an independent federal agency established by Congress on March 10, 1970, to oversee the safety and soundness of federally insured credit unions. A board of three members appointed by the President and confirmed by the Senate provides agency oversight.

In addition to chartering and regulating federal credit unions, NCUA insures member accounts in 6,566 federal credit unions and 4,062 state-chartered credit unions. Thus, the NCUA Board is also responsible for the management of the National Credit Union Share Insurance Fund (NCUSIF), which was created on October 19, 1970. The NCUSIF currently insures approximately $335.6 billion in member share deposits.

During 1999, credit unions continued to thrive—assets and capital were at record levels, while the number of problem cases remained low. The credit union insurance fund also remains strong. For the fifth consecutive year, the NCUSIF returned a dividend to credit unions on their deposits in the fund.

With the enactment of the Credit Union Membership Act in August 1998, NCUA began its implementation effort in 1999. A good start was made. Federal credit unions affiliated 16,290 new groups to their existing fields of membership and the number of credit union members nationwide grew to 75 million people, many of them in low-income communities.

The Year 2000 computer issue dominated much agency attention and resources throughout 1999. Through careful planning, education and preparation, Y2K concerns were identified and resolved early. This pro-active approach ensured a smooth transition and ongoing financial services for credit unions and their members as they entered the new century.

NCUA established fifteen performance goals for 1999. All but two goals were met:

- **Performance Goal 3.1a:** *Reduce by 10% the number of low-income designated credit unions with net capital of less than 6%,* and
- **Performance Goal 3.2b:** *Increase the number of federal credit union members served by 3%.*

An additional goal was partially met.

- **Performance Goal 4b:** *95% of complaints, concerning consumer protection laws, received by regional offices are initially responded to within 10 days. 90% of complaints are resolved within 90 days.*

Please refer to page 2 for a summary of results.

Sections II-V of this report provide for each performance goal:

- **Actual Performance;**
- **Analysis of Results;**
- **Impact on 2000 Plan;**
- **Resource Utilization;**
- **Program Evaluation Data** (as available).

Section VI discusses lessons learned.

Summary of Results

by Performance Goal

Goal	Description of Goal	1998	1999	Goal		Met?
1.1	FICUs Y2K ready	20%	100%	=	100%	Yes
1.2	FICUs able to meet Y2K liquidity demands	n/a	100%	=	100%	Yes
1.3	FICUs with net capital < 6%	347	271	< =	322	Yes
1.4	FICUs with net capital < 6% & return on assets < 0.5%	214	138	< =	199	Yes
1.5a	FCU examinations appraised meet/exceeds standards	97%	97%	> =	96%	Yes
1.5b	Average response to customer survey	4.4	4.5	> =	4.4	Yes
1.6	CCUs meeting capital level requirements	n/a	38	All	38	Yes
1.7	Favorable/neutral response to new regulations	n/a	100%	> =	60%	Yes
2.1	Equity ratio of NCUSIF	1.3%	1.3%	> =	1.3%	Yes
3.1a	LICUs with capital < 6%	72	84	< =	65	No
3.1b	Number of LICUs	464	541	> =	524	Yes
3.2a	Potential membership in LICUs (in millions)	7.8	10.4	> =	8.5	Yes
3.2b	Members in FCUs (millions)	43.8	43.9	> =	45.1	No
4a	Compliance with consumer regulations	n/a	97%	> =	97%	Yes
4b	Complaints responded to within 10 days	n/a	92%	> =	95%	No
	Complaints resolved in 90 days	n/a	98.3%	> =	90%	Yes

LEGEND

CCU	Corporate Credit Union
FCU	Federal Credit Union (federally chartered and federally insured)
FICU	Federally Insured Credit Union
FISCU	Federally Insured State Chartered Credit Union
LICU	Low Income Credit Union
NCUA	National Credit Union Administration
NCUSIF	National Credit Union Share Insurance Fund

Section II: Performance Report Strategic Goal #1
Promote a System of Financially Sound Well Managed Federally Insured Credit Unions

Outcome Goal 1.l: Ensure that all federally insured credit unions are Year 2000 ready.

Performance Goal: Ensure that by 9/30/99, 100% of federally insured credit unions are either:

- Year 2000 ready;
- under appropriate supervisory action; or
- in liquidation or merger status.

Indicator: The percentage of total federally insured credit unions that are year 2000 ready by 9/30/99, plus the number of federally insured credit unions under supervisory action or in liquidation or merger status.

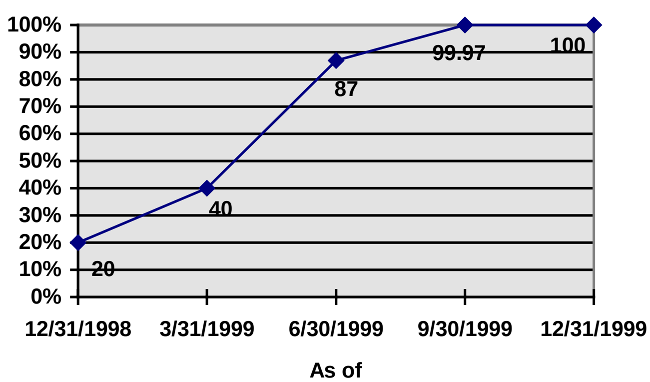
Data Source: Year 2000 quarterly reports and NCUA liquidation, merger and supervisory logs.

Actual Performance

Goal met.

- As of September 30, 1999, 99.97 percent of federally insured credit unions were Y2K ready.
- Only three credit unions were less than fully ready on September 30th. One was resolved by conservatorship in October, one completed implementation shortly after September 30th; and the third completed its system conversion in November.

Percentage of Credit Unions Y2K Ready



- Reports from credit unions indicate that all critical systems successfully handled the date change, with no problems reported.
- Examiners contacted all federally insured credit unions starting January 1, 2000, and continued the contact process through January 5, 2000, when the process was suspended.

Analysis of Results

The date change to Year 2000 was a non-event. This, of course, was the ultimate goal of NCUA --and the credit union community. NCUA focused a significant proportion of its examiner resources on credit union preparedness. With 9,535 examiner contacts, each credit union was contacted at least once. Examiners spent a total of 121,000 hours making Y2K contacts, for an average of 17 hours per credit union.

The Y2K event management effort brought about an unprecedented level of cooperation between NCUA staff and state regulators, Federal Financial Interagency Examination Council (Exam Council) agencies, other federal agencies, and credit union trade representatives. Communication channels were established among regulators to relay information on what was actually happening, and to ensure that credit union management and members had good information, as well. The results of this high level of cooperation were first, systems which worked, and secondly, a public reassured that there was no reason for concern.

With such overwhelming success, some have asked if all the work was necessary. The response from one credit union manager indicated that he felt financial institutions would not have faired nearly as well if the NCUA has not pursued the issues with such vigor.

> "In 1997, when NCUA first began to press the Y2K issue, I felt it was a lot about nothing. However, we took it very seriously, and found out a lot about our operation. There were about $250,000 in upgrades and replacements that were needed. Contingency plans needed upgrading. Our communication to membership had to be precise, and occur with regularity. Our staff needed to be trained. All of this was done, thanks only to NCUA!...Now only a few hours before midnight, I still think Y2K will be an non-event, but it surely would not have been without the excellent work of the credit union community under the guidance of the Regulatory Agency."

Impact on the Future

Although the Y2K "drill" is (fortunately) a once in a life time experience, some of its by-products will have a continuing impact. As a result of Y2K preparations, credit unions and NCUA have established:

- business resumption and contingency operation plans;
- event management plans; and
- emergency liquidity and cash delivery procedures.

NCUA has established:

- national response teams which can be coordinated within a days notice to work on substantive supervisory problems, any where in the country, when regional resources are exceeded; and
- improved coordination with state and federal financial institutions on issues of liquidity, emergency cash needs, and communication with the public about the status of the institutions entrusted with their deposits.

The last bullet is particularly important; NCUA and the other financial regulators share similar, if not identical, issues related to the safe and secure integration of financial services and emerging technology to meet consumer needs. The communication models and the level of cooperation achieved in the Y2K effort will, hopefully, be duplicated in the broader technology sphere.

Resource Utilization

Outcome Goals 1.1 and l.2 Combined

	ANNUAL BUDGET	ANNUAL ACTUAL	VARIANCE
FTE's	171.23	164.5	(6.73)
Dollars	$20,989,548	$20,224,637	($764,912)

Resources were devoted to the Y2K goal as planned. Ninety-three percent of allocated resources were used during the first three quarters of 1999. This is consistent with the need for timely NCUA examiner follow-up on June and July goals for implementation of Y2K ready systems.

Program Evaluation

Office of Inspector General Reports

NCUA's Office of the Inspector General produced a series of reports addressing Year 2000 computer problems as related to NCUA and federally insured credit unions. These reports and the report recommendations are as follows:

- **Year 2000 Waiver Process Review**
  Objective: To evaluate NCUA's efforts in monitoring and assisting federally insured credit unions to address Y2K date compliance through the waiver process.
  Findings: Waiver actions were justified; there was a lack of documented follow-up actions; the waiver process was lengthy; and additional attention may be needed for federally insured state chartered credit unions.

- **Year 2000 Internal Systems Review**
  Objective: To review Y2K testing compliance for each of NCUA's mission critical systems and recommend corrections for any deficiencies.

Findings: NCUA has completed testing for each of its mission critical systems. The testing was performed in accordance with federal standards and industry practices. Testing documentation was found to be adequate to support the work performed. The review did not disclose a need for additional testing of NCUA critical systems.

- **Year 2000 Credit Union Progress in Meeting Renovation Milestone**

  Objective: To evaluate credit union progress in meeting the January 31, 1999, milestone for completion of the renovation phase and the determine if the December 31 quarterly progress reports filed by the credit unions are reporting accurate results of the renovation phase.

  Findings: Although NCUA reported that most federally insured credit union mission critical systems were renovated by the January 31, 1999, milestone, many of those that had not been fully renovated by that date were not covered by waivers or administrative actions. NCUA has since made significant progress to address the situation. There were some inaccuracies in the Y2K quarterly status reports. NCUA has increased efforts to ensure the accuracy of the quarterly credit union status report.

- **Year 2000 Progress of High Risk Credit Unions**

  Objective: To evaluate whether credit unions rated *unsatisfactory* and those rated *needs improvement* are receiving appropriate and timely follow-up and to determine if high risk credit unions have adequate Y2K contingency plans. Additionally, to review a small sample of credit unions rated *satisfactory* to determine if the rating was justified.

  Findings: Supervisory contacts are being made in accordance with agency guidance and staff are following supervision guidance. Business Resumption Contingency Plans (BRCP) were prepared by the credit unions in the review sample. The examiner's review documentation indicated that most BRCPs were reasonable and acceptable. Review of a small sample of credit unions rated *satisfactory* indicated that, overall, examiners addressed problems noted and identified plans to resolve the problems.

- **Year 2000 Readiness of Credit Union Vendors**

  Objective: To determine the Y2K status of credit union system vendors and to determine what action NCUA was taking to ensure that vendors are making satisfactory progress in providing renovated systems to its credit union clients.

  Findings: NCUA has reported that substantially all federally insured credit union mission critical systems were renovated by the NCUA testing milestone of June 30, 1999. NCUA staff feel confident that the status of vendors is accurately reported due to the various programs put in place regarding vendors.

Outcome Goal 1.2: Ensure that federally insured credit unions are prepared to meet member liquidity demands occasioned by Year 2000 concerns.

Performance Goal: Ensure that 100% of federally insured credit unions have adequate liquidity by 9/30/99, as documented in their Year 2000 liquidity plans.

Indicator: The percentage of federally insured credit unions with adequate liquidity documented in their Y2K contingency plans by 9/30/99. Letter to Credit Unions No. 98-CU-4, *NCUA's Year 2000 (Y2K) Contingency Plan,* requires credit unions to determine liquidity needs and establish appropriate levels of liquidity.

Data Source: NCUA's Examination System (E-Forms from Year 2000 reporting.)

Actual Performance

Goal met.

- As of September 30, 1999, 99.97 percent of all federal credit unions had adequate liquidity as documented in their Y2K liquidity plans.
- By December 31, 1999, all federal credit unions had adequate liquidity plans.
- The credit union system did not experience significant liquidity stress levels during the most critical time period, November through December 1999.

Analysis of Results

NCUA had a two-pronged approach to potential liquidity problem --to ensure credit unions had adequate liquidity plans, and to develop an NCUA response plan. These plans were complimentary.

Credit unions were to analyze their cash needs and develop an Y2K Contingency Plan sufficiently detailed to ensure they were able to provide services to their members. NCUA was responsible for ensuring the cooperative efforts of external liquidity sources such as the U.S. Central Credit Union, corporate credit unions, and the Central Liquidity Facility.

- Corporate credit unions restructured their balance sheets to hold more in overnight portfolios and to purchase investments maturing in late 1999.
- The Central Liquidity Facility borrowing limitation of $600 million was removed by Congressional action for the period October 1, 1999, through September 30, 2000.
- The Central Liquidity Facility, previously inactive, extended over $600 million in loans during the last quarter of 1999.

NCUA's efforts and those of credit unions also focused on reassuring credit union members. NCUA encouraged credit unions to provide Y2K information through statement mailings, newsletters, web sites, etc. NCUA's continuing cooperation with Exam Council agencies produced a unified message to support member confidence in the Y2K readiness of all federally insured financial institutions. Public polls, and the ultimate result, indicate that the word got out, and that it was persuasive. Having made the necessary preparations, the financial industry and its regulators could, with confidence, reassure the American public that, “Your federally insured financial institution is the safest place for your money.”

<u>Program Evaluation</u>

Office of the Inspector General Report

- **Review of Credit Union Liquidity Plans**

  Objective: To determine if NCUA has taken a proactive role to address emergency liquidity issues and minimize disruption at the credit unions it oversees and to determine if natural person credit unions have adequate plans to address Y2K liquidity issues.

  ⇒ **Findings:** NCUA has taken appropriate action to address and minimize potential liquidity emergencies as a result of the century date change. Each credit union in the sample had prepared a liquidity plan and examiner review documentation indicated that most liquidity plans were reasonable and adequate. OIG review indicated that many of the critical attributes suggested in NCUA’s guidance were missing and there was much room for improvement in credit union plans. However, the OIG review noted liquidity plan documentation was not indicative of a liquidity problem, but rather a living document to which future refinements or improvements could be made.

  Action taken in response to findings: Recommendations in the report implemented. Some of the additional follow-up and documentation had been performed after Office of Inspector General field work.

Outcome Goal 1.3: Ensure that federally insured credit unions are adequately capitalized.

Performance Goal: Reduce by 7% the number of federally insured credit unions with net capital of less than 6%.

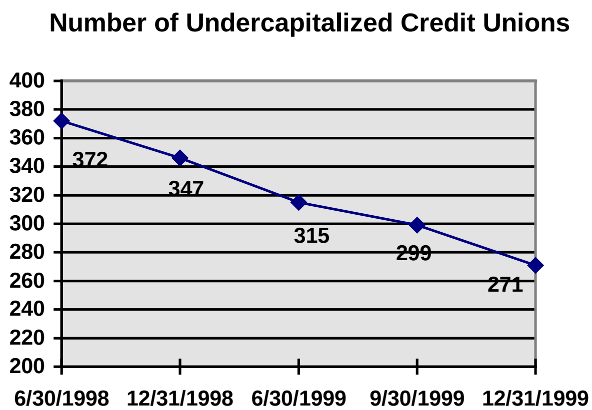
Indicator: There were 372 federally insured credit unions with net capital of less than 6% as of June 30, 1998. The 1999 goal was 346 as of December 31, 1999.

Data Source: The NCU 5300 Call Report

Actual Performance

Goal exceeded.

- The goal to reduce the June 30, 1998 figure 7% by December 31, 1999, was met by December 31, 1998.
- With the goal manager's concurrence, the December 31, 1998 figure was used as the baseline rather than the June 30, 1998 figure.
- **The goal became 347 minus 7%, a reduction of 24, for a total of 322 undercapitalized credit unions by December 31, 1999.**
- As of December 31, 1999, 271 of the original 347 credit unions remained undercapitalized.



Analysis of Results

Data collection issues may have created a rosier picture than is warranted. Because of problems related to timeliness of the 5300 report for quarterly data collection (complete call report data is available semiannually, only, significantly beyond the end of the quarter) a static list of credit unions was tracked. As of June 30, 1999, of the original 347 listed, only 315 remained undercapitalized, again easily exceeding the annual goal in six months. However, the 5300 report for June 30, 1999, received in August shows a total of 339 undercapitalized credit unions.

While NCUA staff helped resolve the capitalization problems of 32 credit unions, 24 new credit unions developed capitalization problems.

Similarly, as of December 31, 1999, while figures show a 22 per cent reduction in the number of the original undercapitalized credit unions, from 347 to 271, the actual total number of undercapitalized credit unions was 284.

YEAR	**DEC 90**	**DEC 91**	**DEC 92**	**DEC 93**	**DEC 94**	**DEC 95**	**DEC 96**	**DEC 97**	**DEC 98**	**DEC 99**
Credit Unions with net capital <6%.	2,514	2,576	2,278	1,1431	931	541	405	364	347	284
% of credit unions with net capital <6%.	19.55%	19.88%	18.09%	11.62%	7.76%	4.63%	3.56%	3.24%	2.55%	2.67%

Data indicates that while we are dealing effectively with known problems, our preventive efforts could be improved. This could have been, in part, a result of a heavy concentration of supervision activity on preparation for the millennium date change. In fact, approximately 14% of federally chartered unions examinations were deferred due to the Y2K emphasis.

Even with regional focus on Y2K, because of this goal, and the strategies supporting it, several regions made significant modifications to their supervision programs to achieve better results. For example, one of the strategies, underlying the performance goal, was to deal promptly with CAMEL code 3 credit unions (credit unions of some supervisory concern) in addition to dealing with those that had been rated poor, CAMEL 4, or unsatisfactory, CAMEL 5. One region was unable to meet the goal to improve CAMEL 3 problems within 36 months. As a result, the region undertook a study to determine:

- the effectiveness of each Supervisory Examiner's supervision efforts;
- the appropriateness of the CAMEL ratings assigned;
- whether or not the region was in compliance with national policy regarding resolution of code 3 rated credit unions.

Action taken as a result of the study includes:

- adjusting field goals to ensure sufficient emphasis is place on resolving long-standing problems in a timely manner;
- allocating appropriate resources in order to provide sufficient on and off-site supervision for these credit unions; and
- discussing problem resolution strategies at group and critical case meetings to maintain an effective, results-oriented supervision program.

We have been wary of an unintended consequence of the "reduce the number of undercapitalized credit unions" goal. One of the ways to accomplish this goal would be to merge or liquidate troubled credit unions. In fact, of the 76 credit unions removed from the undercapitalized list, 38, or 50 percent, were taken off the list because of merger or liquidation. Strategic goals for 2000-2005 emphasize establishing a regulatory environment where credit unions of all sizes flourish. While it would be inappropriate to interfere with a credit union business decision to merge or liquidate, NCUA will continue to emphasize to examiner staff that merger or liquidation should be viewed as a last resort option to resolve supervisory problems.

<u>Impact on 2000 Annual Plan</u>

The 2000 Annual Plan addresses the three issues mentioned above:

- **Data collection,**
- **Increased attention to preventing problems, and**
- **Preserving the structural integrity of credit unions.**

Data collection. The 2000 Annual Plan also has a performance goal to reduce the number of under capitalized credit unions. However, the goal and its indicator have been modified to be a percentage of all federally insured operating credit unions. This will necessitate tracking both existing and newly undercapitalized credit unions. The long term view of the 5300 report data collection program will be supplemented by information from the Examination System (EXM) database. EXM data is available contemporaneously and will be used to adjust supervision strategy to the current circumstance.

Increased attention to preventing problems. Prompt Corrective Action legislation, sets specific trip wires that mandate the specifics of NCUA's supervisory approach to credit unions with financial problems. There are several strategies dealing with prompt corrective action initiatives, specifically. Additionally, Strategic Goal 1, one of the performance goals, and many of the underlying strategies, found in the 2000 Annual Plan, have increased focus on NCUA's responsibility for helping credit unions prepare for the future and place greater emphasis on development of realistic resolution when adverse financial trends are encountered. Specifics include:

- macro and micro analytic reports, that include forecasting, to focus resources on credit unions which are outside the norms;
- examination philosophy which promotes risk-based reviews, a more forward looking review and focus on the bigger picture;
- more timely reporting mechanisms to identify trends in corporate credit unions; and
- emphasis on encouraging credit union business planning.

The NCUA examination program and examiner training programs, which were scaled back due to Y2K, will be back to full strength. All federal credit unions will be examined during 2000. Examiner training programs will be stepped up to prepare examiners to deal with a variety of issues including prompt corrective action, asset-liability management training, real estate lending, a modified examination philosophy, etc.

Preserving the structural integrity of credit unions. Balancing the goal dealing with the health of the insurance fund is the specific statement that NCUA examiners should consider all other options before suggesting merger. The approval process for assisted merger will require documentation that all other options were explored. This combined with strategies included under outcome goal 3.2 “Enable credit unions and their members to succeed by ensuring that neither examination focus nor regulations impose unreasonable impediments” should ensure a healthy balance between safety and soundness goals and those goals geared to promote a broad variety of flourishing credit unions.

Resource Utilization

Outcome Goals 1.3, 1.4, 1.5, and 2.1 (Examination and Supervision Goals) Combined

	ANNUAL BUDGET	ANNUAL ACTUAL	VARIANCE
FTE’s	744.14	676.7	(67.47)
Dollars	85,933,967	80,718,981	(5,214,987)

Although the agency vacancy rate dropped from 11.70 percent in December of 1998 to 5.09 percent in December of 1999, regional examination and supervision programs remained understaffed throughout the year. Examination and supervision resources were diverted to Y2K, as needed. Agency overtime expense was over budget by 88 percent. A total of 94 percent of the expense came from the regions, driven by the need to complete examination and supervision programs hampered by vacancies and Y2K.

Program Evaluation

NCUA is in the process of evaluating its current examination process. This is being done by a committee composed of a broad spectrum of agency staff, with input from credit unions and other financial regulators. The committee’s charge is to review all aspects of the current examination process and determine the most efficient way to examine credit unions to help ensure their safety and soundness in an increasingly competitive environment. As NCUA’s examination program is the foundation for all other activities, this committee’s recommendations are likely to have a major impact on how NCUA does business. The committee will complete its work during 2000 and implementation of its recommendations will be ongoing for at least the next several years.

Outcome Goal 1.4: Improve the financial soundness of credit unions with negative financial indicators.

Performance Goal: Reduce by 7% the number of federally insured credit unions with return on assets of less than .5% and net capital of less than 6%.

Indicator: The total number of federally insured credit unions reflecting the negative financial indicators (return on assets of less than .5% and net capital of less than 6%.) There were 213 credit unions with these negative financial indicators, as of June 30, 1998. The 1999 goal is to reduce the number to 198 as of December 31, 1999.

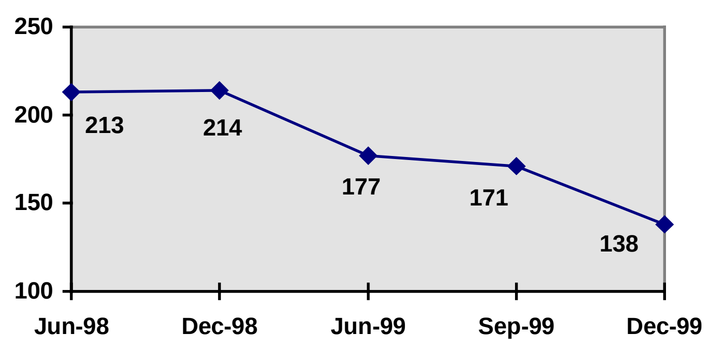
Data Source: NCUA 5300 call report system

Actual Performance

Goal exceeded.

- As was the case with Outcome Goal 1.3, it was agreed to use the December 31, 1998 figure rather than the June 30, 1998 figure.
- **The goal became 214 minus 7 per cent, a reduction of 15, for a total of 199 credit unions by December 31, 1999.**
- As of December 31, 1999, 138 credit unions, of the original 214, had a return on assets of less than .5 per cent and net capital of less than 6%.

Credit Unions with Net Capital of < 6 Per cent and Return of Assets of < .5%



Analysis of Results

Data collection is an issue with this performance measure, as well. Again, although at the end of the year we helped resolved the problems of 36 percent of the original 214 credit unions with negative financial indicators, the actual total of operating federal credit unions with net capital of 6 per cent and return of assets of .5 per cent was 171, a reduction of 25 per cent --still much better than the original 7 per cent goal.

YEAR	DEC 91	DEC 92	DEC 93	DEC 94	DEC 95	DEC 96	DEC 97	DEC 98	DEC 99
Credit unions with net capital <6% and ROA <.5%	1,109	680	432	317	234	191	194	214	171
% Credit unions with net capital <6% and ROA <.5%	8.56%	5.40%	3.51%	2.64%	2.00%	1.68%	1.73%	1.92	1.60

To meet the overall goal, the goal manager, in this case the Director of the Office of Examination and Insurance, assigned performance goals to each of NCUA’s six regional offices. Each region was given the same goal, a 7% reduction in the number of federally insured credit unions with return on assets of less than .5% and net capital of less than 6%. One region did particularly well with a 63% reduction. This region focused on this goal throughout 1999 and achieved results through timely supervision. The supervisory examiner received monthly reports and carefully monitored credit unions targeted by this performance measure. Another region was unable to meet the performance goal. In fact, that region had a 5% increase in credit unions with the relevant negative financial indicators. The region felt the goal was unattainable due to the high number of small credit unions in the region and because small credit unions with low capital will always have more difficulty generating sufficient income to meet this goal.

<u>Impact on 2000 Annual Plan</u>

Much of the discussion of data collection, increased attention to preventing problems, and preserving the structural integrity of credit unions, included under outcome goal 1.3, applies to outcome goal 1.4, as well. Specific detail regarding data collection and this measure is included here. Additionally, the analysis of results, for this outcome goal, highlights a “lesson learned” related to goal assignment.

Data collection. The 2000 Annual Plan also has a performance goal to reduce the number of federally insured credit unions with return on assets of less than .5 per cent and net worth of less than 6 per cent. However, the goal and its indicator have been modified to be a specific number or a specific percentage of operating credit unions, whichever is lesser. Again, this will mean tracking both existing and new problem cases using 5300 report data and Examination System data.

Goal assignments. Although it may seem equitable to assign each region the same goal (in this case seven percent reduction) to meet the overall agency seven percent goal, it may not be a realistic or reasonable approach. Credit union demographics vary considerably from one region to another and this should be taken into account when determining what is expected of each region. As pointed out in the data analysis for this goal, the middle-Atlantic region with many small credit unions will find outcome goal 1.4 more difficult to achieve than the west coast region with a majority of large credit unions. Ideally, each region will have a reasonable goal, one that requires some "stretch" to achieve, but not one that would mean extraordinary efforts and resources. For 2000, the team leader and his/her strategic team will analyze each performance goal, considering the regional circumstance, and will assign the goal only after completing that analysis and consulting with the regional director.

Resource Utilization

See discussion under Outcome Goal 1.3.

Program Evaluation

See discussion under Outcome Goal 1.3.

<u>Outcome Goal 1.5:</u> Ensure that NCUA maintains a quality examination program.

<u>Performance Goal 1.5a:</u> NCUA quality control procedures indicate that 96% of federal credit union examinations appraised, meet or exceed review standards.

<u>Indicator:</u> The Supervisory Examiner's rating of the examiner's report recording the results of his/her examination of a federal credit union.

<u>Data Source:</u> Predetermined sample of examiners reports, at a minimum five examination reports a year, per examiner.

<u>Performance Goal 1.5b:</u> Credit unions are satisfied with the examination process as demonstrated by a 4.4 average overall response rating on the NCUA Examination Survey.

<u>Indicator:</u> The average overall response rating to questions on the NCUA Examination Survey which is based on a scale of 5 (Definitely Agree) to 1 (Definitely Disagree).

<u>Actual Performance:</u> Performance Goal 1.5a

Goal met.

Ninety-seven percent of the examinations appraised by supervisory examiners met or exceeded review standards.

<u>Analysis of Results</u>

Regional performance has been consistent, each region at or about the ninety-seven percent range, with one exception. In that region, ninety-two percent of examinations appraised met review standards.

<u>Impact on 2000 Plan</u>

Reflecting NCUA's 2000-2005 Strategic Plan, the 2000 Annual Plan is more externally focused. That is, in our plan we will be tracking broader, industry-related issues, rather than our internal processes, per se. Performance goal 1.5a dealing with a quality examination program still appears in the 2000 plan, but it is as a strategy (a means to an end) under "Maintain the healthy performance of the National Credit Union Share Insurance Fund." The quality exam program strategy for 2000 is "conduct quality control reviews on a statistically valid sample and achieve a ninety percent confidence ratio." The percent has been dropped from ninety-six percent to ninety percent because we will be introducing new, risk-based examination procedures. We expect a reduced level of performance due to the learning curve related to the new procedures.

<u>Actual Performance</u>: Performance Goal 1.5b: Credit unions are satisfied with the examination process as demonstrated by a 4.4 average overall response rating on the NCUA examination survey.

Goal Met

- The average response rating for surveys received from 1/1/99 to 3/31/99 was 4.52.
- A revised survey was distributed during the 2nd quarter. Results from that survey, reflect a 4.5 rating.

<u>Analysis of Results</u>

- The 4.5 rating is better than the 4.4 average overall response rating received in 1996, 1997, and 1998.
- The survey has only been given for the past several years when the economy has been healthy and credit unions, for the most part, have been thriving. Achieving a high rating might be more difficult in leaner times when an examiner points out problems and requires action to deal with them.
- The highest response to a specific question, 4.78, was to, *"The examiner was courteous and professional in contacts with credit union staff and officials*."
- Next highest average rating, at 4.66, was for, "*The examiner was willing and able to work with the management team (e.g. developing, as necessary, corrective action to areas of concern, sharing information, discussing applicable current credit union issues.)"*
- At the lower end, 4.52, was, "*The examination report presented an objective assessment of the credit union"* and, at 4.54, *"The examiner concentrated on what was important during the examination."*

<u>Impact on 2000 Annual Plan</u>

Examination Survey results are used as a measure in the 2000 Plan, as well. The 2000 Annual Plan includes an outcome goal, "Enable credit unions and their members to succeed by ensuring that neither examination focus nor regulations impose unreasonable impediments." This outcome goal is measured by two performance goals:

- Credit unions are satisfied with the examination process, in general, as demonstrated by a 4.4 average overall response rating on the NCUA Examination Survey.

- Credit unions perceive the examining process and examiners as focused on important issues and willing to help as demonstrated by a 4.4 average response rating to questions number 3 and 4 on the Examination Survey. (Question 3 is "The examiner concentrated on what was important during the examination." and question 4 is "The examiner was willing and able to work the management team...")

These questions are geared to determine the degree to which credit unions perceive the examination process and examiners as focused on important issues and willing to help.

Resource Utilization

See outcome goal 1.3.

Outcome Goal 1.6: Ensure that corporate credit unions operate within a reasonable level of risk in order to maintain their role as a provider of liquidity and financial services to the credit union industry.

Performance Goal: Ensure that 100% of corporate credit unions, on a monthly basis, meet the regulatory requirements for minimum capital levels, pursuant to Part 704.3 and Part 704 Appendix B of NCUA's Rules and Regulations, and for changes to net economic value, pursuant to Part 704.8 and Part 704 Appendix B of NCUA's Rules and Regulations, based on the corporates approved operating authority level.

Indicator: The percentage of corporate credit unions that meet the regulatory requirement for capital levels and changes to net economic value.

Data Source: NCUA's 5310 Call Report.

Actual Performance

Goal met.

Performance was as follows:

Corporate Operating Level	No. of Corporates at Operating Level	Min Capital Ratio/Max Decline in NEV	No. of Corporates that Meet Min Capital Ratio	No. of Corporates that Meet Max decline in NEV
BASE	26	4%/18%	26	26
BASE Plus	7	4%/25%	7	7
Part I	1	5%/35%	1	1
Part II	3	6%/50%	3	3
Wholesale	1	5%/50	1	1

Analysis of Results

Each corporate credit union was able to meet regulatory requirements for minimum capital levels and the change to net economic value despite the significant growth in assets due to the build up of Y2K liquidity in the credit union system. Early in 1999, NCUA developed a liquidity projection system to help corporates anticipate member needs. Corporate credit unions maintained very liquid balance sheets throughout 1999. While higher yields could have been obtained through other investments, corporates chose to invest in low risk, short-term products to ensure they could meet their members' liquidity needs without resorting to outside borrowing.

The Y2K related buildup of liquidity in corporate credit unions peaked in April 1999 with total assets of nearly $80 billion. Throughout the remainder of 1999 liquidity gradually flowed out of the corporates as natural person credit unions prepared for their members' needs over the century date change. As of December 31, 1999, total assets in the corporate system had declined to $65 billion. As a result, the capital ratios in corporate credit unions have grown stronger. The increase in the capital ratio fluctuated from corporate to corporate, but the overall increase to the combined capital ratio was approximately 40 basis points between June and December. It is anticipated that the asset size of corporates will stabilize for the remainder of 2000. Under this scenario, the capital ratios should gradually increase further as higher asset months fall out of the moving daily average net asset (DANA) calculation.

Impact on 2000 Annual Plan

The 2000 Annual Plan does not include a separate outcome goal related to the corporate credit union program. Corporate credit unions are included in the generic term "credit unions" and corporate credit union figure in three of the five strategic goals:

- Promote a system of financially sound, well managed federally insured credit unions able to withstand economic volatility;
- Ensure that credit unions are prepared to safely integrate financial services and emerging technology in order to meet the changing needs of their members; and
- Create a regulatory environment that will facilitate credit union innovation to meet member financial service expectations.

Most of the performance goals and strategies and cited in the 2000 Annual Plan apply to corporates as well as natural person credit unions. However, there are several specific corporate program strategies:

- Revise and improve corporate examination procedures;
- Develop a more timely, comprehensive reporting mechanism to identify trends and concerns in corporate credit unions; and
- Move forward with the review and revision of corporate credit union regulations to ensure corporates have the authority they need to serve their members while maintaining adequate safety and soundness safeguards.

The 1999 Annual Plan was organized functionally, for the most part. One office was deemed to be responsible for each outcome goal. Therefore, in addition to the numerous goals assigned to the Office of Examination and Supervision, the Office of Corporate Credit Unions, the Office of Community Development Credit Unions, and General Counsel, were each assigned a goal. The 2000 plan is structured very differently. It is organized cross-functionally, as offices share responsibility for strategic goals. To facilitate implementation of this type of plan, strategy teams have been established to coordinate the efforts of the various players. A representative of the Office of Corporate Credit Union will serve on several strategy teams. We believe this type of approach will achieve even better results.

Resource Utilization

	ANNUAL BUDGET	ANNUAL ACTUAL	VARIANCE
FTE's	40.33	34.9	(5.44)
Dollars	6,561,521	5,743,418	(818,102)

The Office of Corporate Credit Unions (OCCU) operated under budget by approximately thirteen percent for 1999. This is because OCCU was below their authorized FTE level throughout 1999. On average, the office operated with four vacant positions. This did not have a negative impact on the performance goal, but it did mean that staff accumulated significant amounts of compensatory time in order to manage the workload. OCCU filled several positions towards the end of 1999, which should bring the program closer to budget in 2000 and should ensure meeting program goals without jeopardizing employee morale due to heavy workloads.

Corporate management will focus on remaining viable and competitive in the era of "banking modernization." As corporate credit union viability will undoubtedly mean new products and services, the challenge for the Office of Corporate Credit Unions will be to ensure staff training keeps pace with changes in the industry. OCCU expects to have a full complement of trained staff, which will enable them to keep abreast of the changes in the corporate credit union industry.

Program Evaluation

Each corporate credit union examined in 1999 was given a survey to complete. As a result of the responses received, the Office of Corporate Credit Unions will continue to stress a risk-based focus and de-emphasize minutia.

Outcome Goal 1.7: Reduce unnecessary regulatory burden on the credit union system.

Performance Goal: Issue new regulations and revise existing regulations so that the new regulations are clear, understandable, and minimally intrusive, in both structure and implementation, as indicated by a 60% favorable or neutral response,

Indicator: Number of positive or neutral responses to related questions.

Data Source: Comments submitted by the public as a part of the rule-making process.

Actual Performance

Goal met

The Office of General Counsel drafted and processed eighteen final rules, three interim final rules, six proposed rules, four Advanced Notices of Proposed Rule Making, two (non-rulemaking) notices and assisted other offices with two final rules. Because of timing, only two rules were issued with a comment period ending in time to evaluate comments received in response to the new language in the preamble.

New regulation or revised regulation	Date of Issue	Percent of comments received (in response to preamble questions) that are favorable or neutral.
Part 741-Requirements for Insurance (required by CUMAA)	May 19, 1999	100%. 18 comments submitted; 1 favorable and 17 neutral.
Part 702, 741, and 747-Prompt corrective action		Eighty-six comments were received. However, those that commented did not address the clarity or intrusiveness of the regulation. As this was a complex proposal, the comments dealt with substantive issues. Those that commented also did not address intrusiveness as they seemed to recognize that many of the provisions of this regulation are mandated by law.

Analysis of Results

Data collected was inadequate to make a valid judgment regarding clarity and intrusiveness of regulations.

Impact on 2000 Annual Plan

This performance goal was of limited usefulness for one primary reason, i.e., there were an insufficient number of regulations to evaluate performance. Even had we been able to evaluate the comments received on many regulations, we might still have found that:

- regulations mandated by legislative change rarely receive favorable comments from the regulated industry, and
- those that commented focused on issues other than clarity and intrusiveness.

In part, as a result of these concerns, we are taking a very different approach to reducing regulatory burden. There are several changes:

- Rather than looking at regulations, per se, we have broadened our approach by establishing, at a higher level, a new strategic goal that focuses on the results we hope to see coming out of the NCUA regulatory environment, i.e., "Create a regulatory environment that will facilitate credit union innovation to meet member financial service expectations."

- We will not be tracking comments on regulations. Instead, we will use five measures to evaluate NCUA's regulatory impact in several different ways. None of the measures are perfect, but, in combination, they should provide a much better assessment.

- We have developed numerous strategies involving several different offices and the regions. Although several of the strategies deal with regulations, others are oriented very differently.

- We have determined that responsibility for reducing regulatory burden and creating an innovation-friendly regulatory environment goes beyond the Office of General Counsel. A cross-functional strategic team will be responsible for achieving the five performance measures associated with the strategic goal.

Resource Utilization

	ANNUAL BUDGET	**ANNUAL ACTUAL**	**VARIANCE**
FTE's	27,41	26.9	(0.47)
Dollars	$1,219,614	$1,156,490	($63,123)

Section III: Performance Report Strategic Goal #2
Protect Member Savings in Federally Insured Credit Unions, Thus Promoting Public Confidence in the Credit Union System

Outcome Goal 2.1: Maintain the healthy financial performance of the National Credit Union Share Insurance Fund

Performance Goal: Maintain the equity ration at 1.3%

Indicator: Percent of equity to insured shares.

Data Source: 5300 Reports/share Insurance Report prepared by the Office of the Chief Financial Officer

Actual Performance

Goal met.

An equity level of 1.3 percent is mandated by statute. When the equity level drops below 1.3 percent, the NCUA Board must consider whether or not to assess a premium. When the equity level goes above 1.3 percent, the NCUA Board may pay a dividend.

- As of September 30, 1999, the equity ratio was 1.31 percent. In October, the NCUA Board approved a 2 7/8 percent dividend with the goal of bringing the equity ratio to 1.3 percent by December 31, 1999.
- As of October 31, 1999, the equity ratio was at 1.29 percent.
- As of December 31, 1999, the equity ratio was at 1.3 percent.

Analysis of Results

The effectiveness of NCUA's supervision program has a direct impact on the health of the National Credit Union Insurance Fund. One of the measures of the effectiveness of the supervision program is to:

"Manage NCUA's supervision program so that the percentage of federally-insured credit unions that remain CAMEL code 4 or 5 is no more than 1.1% for 12 months and no more than .45% for 24 months. No more than 4.5% of federally-insured credit unions will remain CAMEL code 3 for more than 36 months."

Results are as follows:

3/4/5/Duration Data

	Goal 1.1%		Goal .45%		Goal 4.5 %	
	% of 4/5>12 months	**% variance from goal**	**% of 4/5>24 month**	**%of variance from goal**	**% of 3's>36 months**	**% of variance from goal**
3/31/99	NA	NA	.57%	.12%	5.128%	.628%
6/30/99	1.05%	-.05%	.47%	.02%	4.65	.15%
9/30/99	1.26%	.16%	.50%	.05%	4.16%	-.34%
12/31/99	1.09%	-.01%	.45%	.00%	4.04%	-.46%

- Performance generally improved throughout the year. This can be attributed to resources moving from Y2K to more traditional supervisory activity.
- Regional performance was fairly consistent, with the exception of one region, mentioned previously, which has undertaken a longevity study of CAMEL code 3 cases in response to their sub-par performance data.

<u>Impact on 2000 Annual Plan</u>

Maintain an equity ration of 1.3% remains a goal in the 2000 plan. Strategies in support of this performance goal include:

- the duration measures cited above;
- increased asset-liability management emphasis; and
- completion of 90 percent of examinations of federally chartered credit unions within 45 days of beginning on-site activity.

A related performance goal has been added:

"The ten year average for insurance loss ratio stays below $0.30 per $1,000."

The National Credit Union Administration Share Insurance Fund establishes a liability for estimated losses from credit unions that are troubled, merging, or liquidating. The amount of insurance loss is the difference between the amount of liability for losses on the Fund's balance sheet and the actual amount needed. A zero loss goal is not the target objective, but rather to reduce excessive insurance risk relative to the Insurance Fund prevailing equity level. There are other agency goals that increase relative risk to the Fund. The $0.30 per $1,000 recognizes that some measure of risk to the Fund is planned, anticipated and appropriate.

The strategy associated with this goal is to take action should charges for insurance losses begin to approach $.30 per $1,000 of insurance shares. Action would include:

- assign more staff to special action components;
- establish national teams to deal with regional problems; and
- request NCUA Board approval to take specific action to deal with emergency situations.

As indicated in the following table, this goal is not particularly challenging in a prosperous economy. It can be more difficult when economic conditions are not as favorable.

YEAR	89	90	91	92	93	94/94T	95	96	97	98	99
Loss per $1,000	$0.58	$0.51	$0.83	$0.51	$0.25	$0.10/ $0.00	$0.00	$0.00	$0.00	$0.00	$0.00

Resource Utilization

See outcome goal 1.3.

Section IV: Performance Report Strategic Goal #3

Provide a Regulatory Environment that Promotes Credit Union Service to People of Modest Means, as Well as to Other Eligible Consumers.

Outcome Goal 3.1: Promote successful, financially healthy low-income credit unions and credit unions serving the underserved.

Performance Goal 3.1a: Reduce by 10% the low-income designated credit unions with new capital of less than 6%.

Indicator: Increase in the net capital ratio (in the aggregate) for all low-income designated credit unions.

Data Source: NCUA 5300 reports

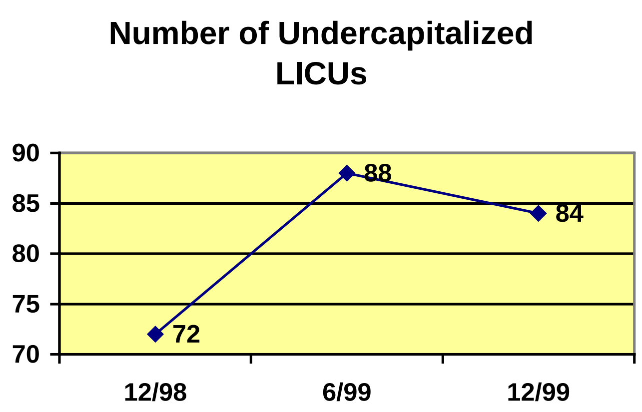
Performance Goal 3.1b: Increase the total number of low-income designated credit unions by 13%

Indicator: The number of low-income designated credit unions.

Data Source: The Management Information System database.

Performance Goal 3.1a Actual Performance

Goal not met.



Analysis of Results

During the time frame June 30, 1999 through December 31, 1999:

- Twenty-three newly designated, undercapitalized LICU's were added;
- Sixteen LICU's improved but remained under 6%;
- Twenty-eight LICU's improved to raise their capital levels above 6%x; and
- Twenty-four LICU's remained under 6% and continued to decline.

Past performance is as follows:

YEAR	90	91	92	93	94	95	96	97	98	99
LICU's with <6% net capital	55	54	55	55	56	68	66	66	72	84

There has been a heavy emphasis on adding new LICU's, (see outcome goal 3.1b) and a substantial proportion of those added are at capital levels of under 6%. If we remove newly added LICU's, performance is comparable to past years.

Resource limitations are a primary reason for NCUA's failure to make as much progress in this area as anticipated. NCUA has a program specifically focused on the health of small credit unions. Assistance provided to low income and small credit unions includes: help in obtaining low-income field of membership and technical assistance grants, counseling new boards in credit union management, assisting management in the resolution of compliance issues, and teaching managers how to prepare budgets.

However, the Small Credit Union Program, (along with several other programs) was directly impacted by the diversion of resources to Y2K. Additionally, NCUA, only at the end of the year, had on board a full complement of examiners and economic development specialists, who concentrate on helping small credit unions.

In spite of the numbers, there were many success stories. As the following examples indicate, resolution of problems in low-income credit unions is labor intensive, but rewarding.

- A low- income credit union exhibited a poor financial picture early in 1999. Operationally, the credit union was not well either. All of the problems were created by the previous manager who quit in July of 1998. The sole remaining employee had only been with the credit union for three months and was now forced to run the credit union alone.
- In order to return the credit union to a healthy status, the examiner and the supervisory examiner developed a detailed document of resolution as well as a supervision plan which utilized local credit union expertise for training. The examiner, the supervisory examiner and the League representative were responsible for monthly monitoring of noted problems. Using a team approach, the supervisory examiner, two mentor credit unions and the league representative coached the credit union back to financial and operational health. All the original problems were corrected and the credit union was upgraded from a code 4 to a code 3. The new manager has learned the accounting side of managing a credit union and requires little assistance. In essence, the credit union has gone from a faltering financial institution to a reasonably strong financial institution due to the hard work of all involved.

Another example:

- A low-income credit union serving an economically depressed section of a city made up of people primarily of Hispanic descent had experienced problems since its inception in 1983. Although the manager's position requires an above average level of expertise as a result of the nature of operations, the credit union had not been able to hire a qualified individual for the manager position due to limited resources. In 1997 the board hired the present manager. The individual has proven to be resourceful and resilient.
- As a result of examiner interaction with the new manager, it was determined that, despite his strengths, he lacked a full understanding of credit union operations. With this in mind, the examiner was tasked with keeping close contact with the manager to provide assistance and answer questions. Frequent contacts to coach and assist combined with the manager's self-motivation and ability have helped resolve long standing problems. The result is a credit union that was upgraded from a code 4 to a code 3.

Impact on 2000 Plan

Although the 2000 Annual Plan does include a goal related to reducing the number of undercapitalized credit unions, it does not include a separate goal for low-income credit unions. We are taking this approach to better coordinate our efforts related to low-income credit unions.

In 1999, the goal manager for Performance Goal 3.1a was the Director of the Office of Community Development Credit Unions. Although this office provided training for low-income credit unions and coordinated many of the programs, actual supervision and day to day assistance activities were handled by regional employees, supervisory examiners, examiners and employee development specialists. Thus, although the Office of Community Development was responsible for monitoring and accomplishing the goal, the resources needed to accomplish the goal were controlled by other offices. We have resolved this "disconnect" by consolidating the two related capitalization goals and by appointing a cross functional team composed of a representative from the regions, the Office of Community Development Credit Unions, and the Office of Examination and Insurance.

We will, however, track the progress of undercapitalized low-income credit unions and we plan to pay special attention to low income credit unions as indicated by the several strategies in the 2000 plan specifically targeted to low income credit unions.

One of the strategies included in both 1999 and 2000 is the development of workshops structured primarily for low-income or small credit unions. Comments received from participants indicate we are achieving the desired results:

- "This has been one of the best credit union conferences I have attended. It was important to me for two reasons. First, the entire workshop was geared to small credit unions. Second, Prompt Corrective Action was addressed in a way that make it understandable and much less threatening than the information I have previously received."
- "The workshop was information 'packed' and went so fast....It was so invigorating to hear of the assistance you are so willing to give Credit Unions.....Your mentor-listing affirms this attitude and is one of the neatest "tools" I've ever encountered! You folks are really 'attuned' to our needs in the field."

Actual Performance: **Performance Goal 3.1b.** Increase the total number of low-income designated credit unions by 13%.

Goal Met

As of December 31, 1999, there were 541 low-income designated credit unions. This is a 16 percent increase over the December 31, 1998, figure of 464. This is in line with the percentage increase for the last several years.

YEAR	90	91	92	93	94	95	96	97	98	99
No. of LICU's	142	134	145	191	214	263	346	398	464	541
% Increase		(5%)	8%	31%	12%	22%	31%	15%	16%	16%

Analysis of Results

This growth is attributable to NCUA efforts to increase credit union awareness of the benefits of the designation. Office of Community Development Credit Union staff met with several regions and their Small Credit Union Program staff to discuss the designation. Efforts were somewhat undercut by resource limitations previously mentioned. Nevertheless, each examiner has received training on the advantages of the designation and is able to carry the message to credit unions. As pointed out in the 1999 Annual Plan, despite considerable progress made since 1993, as of September 30, 1998, NCUA had identified an additional 1,900 credit unions located in low-income areas. It is estimated that more than 700 of those credit unions are in need of specialized assistance, training, and/or guidance.

Impact on 2000 Plan

The 2000 Annual Plan includes the same performance goal—a thirteen per cent increase in the number of low-income designated credit unions. The strategic approach is similar with several additions:

Develop a brochure, using a question and answer format to explain the low-income designation process and advantage. Place the brochure on NCUA's web-site and have examiners distribute to likely credit union candidates.

Use NCUA web site-links to qualified low-income areas listed elsewhere and inform NCUA examiners of the linkage.

As the benefits to be gained from the low-income designation are considerable, NCUA will continue to educate and encourage application for designation, in order that each credit union that qualifies may have every possible advantage to ensure their continued viability.

Outcome Goal 3.2: Increase access to credit unions for underserved individuals and for all other eligible consumers.

<u>Performance Goal 3.2a:</u> Increase potential credit union membership from low-income communities by 10%.

<u>Indicator:</u> Total number of potential members in low-income areas added.

<u>Data Source:</u> NCUA 5300 Report, regional reports and Office of Community Development Credit Unions designed reports.

<u>Performance Goal 3.2b:</u> Increase the number of federal credit union members served by 3%.

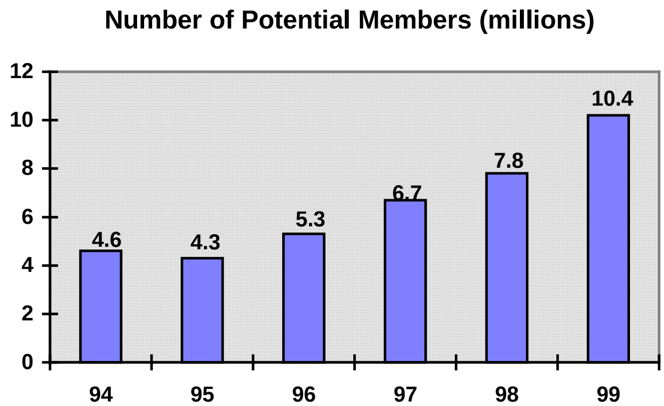
<u>Indicator:</u> Total number of federal credit union members as of December 31, 1999, will be at least forty-five million.

<u>Data Source:</u> NCUA 5300 Report

<u>Actual Performance</u>: Performance Goal 3.2a

Goal met.

As of December 31, 1999, potential membership from low-income communities was at 10.4 million. This is a 33 percent increase over the December 31, 1998 figure.



<u>Analysis of Results</u>

This percentage increase is an improvement over past performance.

YEAR	94	95	96	97	98	99
No. of potential members (millions)	4.6	4.3	5.3	6.7	7.8	10.4
% Increase		(8%)	24%	25%	15%	33%

Impact on 2000 Plan

This goal has been modified somewhat in the 2000 Plan. Rather than measuring potential membership, we will measure the **actual** membership increase in low-income designated credit unions. This is a better measure. Although we have provided guidelines for determining potential membership, as they are fairly complicated, we are not certain that they have been consistently applied. The new goal becomes:

> "Increase credit union membership from low-income credit unions by 25%."

We believe this goal to be a good balance to other goals. Not only do we wish to increase the number of LICU's, (Performance Goal 3.1b) we wish encourage their financial health (Performance Goal 3.1a /Performance Goal 1.1, 2000) and their growth and development (Performance Goal 3.2a.)

Actual Performance: **Performance Goal 3.2b.** Increase the number of federal credit unions members served by 3%,

Goal not met.

As of December 31,1999, there were 43.9 million federal credit union members. This is a .2% increase over 43.8 million as of December 31, 1998.

Analysis of Results

As can be seen by this chart, the 3 per cent membership goal for 1999 was ambitious. Membership growth exceeded 3 per cent in 1993 only.

YEAR	89	90	91	92	93	94	95	96	97	98	99
No. of Member (millions)	35.6	35.6.	36.3	37.2	38.5	39.4	40.5	41.7	42.8	43.8	43.9
% Increase		0%	1.9%	2.4%	3.4%	2.3%	2.7%	2.9%	2.6%	2.3%	.2%

Meeting this goal has been difficult for several reasons:

- The Credit Union Membership Access Act has had a positive impact on the number of credit union members, but its impact was not felt until the 2nd quarter.
- A perception of burdensome regulation and field of membership limitations may be discouraging application for federal credit union charters and encouraging conversion to other charters.

Impact on 2000 Annual Plan

In addition to ongoing efforts such as:

- focusing on timely approval of field of membership expansions; and
- using economic development specialists to assist and educate small credit unions on field of membership processing,

NCUA will strive to achieve a better balance between safety and soundness concerns and credit union access goals. Additionally, efforts will be made to streamline expansion processing by completing the development of:

- an *Express Charter* process;
- a simplified electronic application process using the NCUA web page; and
- a quality control process for new charters and charter expansion processing.

NCUA's Strategic Plan 2000-2005 calls for a renewed emphasis on credit union growth and development. The 2000 Plan does not include any major new outreach initiatives, but we do envision an expanded program for 2001 and following years. In 2000, we need to position ourselves to get a running start for 2001. To do so, certain organizational issues must be resolved. Although the regions, the Office of Community Development Credit Unions and the Office of Examination and Insurance each play a role in current outreach activity, it is not clear which office is responsible for focusing and coordinating expanded efforts. A committee has been convened to recommend the best structure to support the expanded program.

Once the invigorated credit union program is in place, we would hope to see improved results in credit union membership growth. However, for 2000 we have kept the 3% goal and changed the goal to count the number of federally **insured** credit union members, rather than just federally **chartered** credit union members.

Resource Utilization:

	ANNUAL BUDGET	ANNUAL ACTUAL	VARIANCE
FTE's	21.36	17.7	(3.64)
Dollars	$2,914,876	$2,572,135	($342,741)

Section V: Performance Report Strategic Goal #4
Ensure that Credit Union Consumers Get the Benefits and Protections Afforded them by Law and Regulation

Outcome Goal 4: Ensure compliance with consumer regulations.

Performance Goal 4a: 97% of consumer protection law violations, noted during consumer compliance reviews, have been corrected, or an agreement has been reached to correct, immediately following the compliance review.

Indicator: Any unresolved violation.

Data Source: NCUA maintains a centralized data base of violations detected and corrected. Examiners complete consumer compliance reviews during each regular examination using automated checklists.

Performance Goal 4b: 95% of complaints, concerning consumer protection laws, received by regional offices, are initially responded to within 10 days. 90% of complaints are resolved within 90 days.

Indicator: Any complaint not responded to in 10 days. Any complaint remaining unresolved after 90 days.

Data Source: Regional offices maintain a data-base which tracks consumer complaints.

Actual Performance: Performance Goal 4a

Goal met.

Agency-wide, 97.2 per cent of consumer regulation violations were corrected immediately following the compliance review.

Analysis of Results

With one exception, agency performance was consistent across regional lines. One region identified considerable more violations than the others. This is because that region has more small credit unions and smaller credit unions have less consumer protection law expertise and often rely on the examiner for that expertise.

Impact on 2000 Annual Plan

Neither this performance measure nor the next one is included in the 2000 Annual Plan. Both are considered to be too process oriented. In 2000, rather than focusing on NCUA activity, we are encouraging credit union initiatives to achieve member satisfaction. We believe a positive approach to be more useful than a focus on a relatively small number of consumer regulation violations.

As a result, we are using several indirect, or surrogate, measures that we believe better indicate member satisfaction. For example, the 2000 plan has an outcome goal:

"Assist credit unions in understanding the impact of changing demographics and in positioning themselves to address member expectations."

One of the performance measures is,

"The ratio of share draft accounts to members increases by 3%."

Actually, NCUA will take no direct action to increase the number of credit union share draft accounts. Rather, NCUA will take action to encourage credit union business planning focused on meeting member expectations. The share draft account is a surrogate measure of member satisfaction. A member who has a share draft account with a credit union is more likely to use it as his/her primary financial institution. This is an indicator that the credit union is meeting member expectations.

It will be important that staff understands the intent of surrogate measures. This will be done though a focus on strategies, communication to staff regarding the annual plan, and a through review of office operating plans.

Actual Performance: **Performance Goal 4b.** 95% of complaints, concerning consumer protection laws, received by regional offices, are initially responded to within 10 days. 90% of complaints are resolved within 90 days.

Goal partially met.

- Regions responded to 92 percent of member complaints within 10 days, short of the 95 percent goal.
- Regions resolved 98.3 percent of complaints within 90 days, surpassing the 90 percent goal.

Analysis of Results

Four of the six regions met this goal. The regions that did not, had fourteen day goals, previously, and did not have adequate opportunity to make up for the fourteen day goal in place at the beginning of the year. The ten day response goal is less critical than the ninety day resolution goal, and the agency met that goal.

These results are significant, particularly given the increases in the number of member complaints—a trend noted since 1996. The increase in complaints seems to relate to the ease and convenience of e-mail and increasingly sophisticated credit union members, rather than deteriorating credit union service.

Impact on 2000 Annual Plan

Although NCUA will continue to track complaint handling timeliness, as discussed under the previous goal, the measurements included in the 2000 Annual Plan are evaluating more positive indicators of member satisfaction and NCUA's role in facilitating that outcome. In addition to the share draft goal discussed above, the 2000 Annual Plan includes several goals related to NCUA's responsibility, as a regulator, to create a regulatory environment that facilitates credit union innovation to meet member financial service expectations. We believe these goals to be more in line with the intent of the "Results Act."

Resource Utilization

	ANNUAL BUDGET	ANNUAL ACTUAL	VARIANCE
FTE's	36.68	32.5	(4.21)
Dollars	$4,341,824	$3,953,339	($388,485)

Section VI: Lessons Learned

Although this performance report properly focuses on NCUA's impact on the industry we regulate, we have learned a great deal about achieving results in a performance based environment. We think it is worthwhile to summarize what we have learned this year while implementing our plan.   Much of what we have learned is not "rocket- science" and has been addressed thoroughly by others. However, to learn first hand has a much greater impact than to be told.

First and foremost, we have proven the old adage to be true that, "If you don't know where you are going, you won't know when you get there." We were dissatisfied with our initial strategic plan, on which the 1999 Annual Plan was based. It did not seem relevant. Therefore, we developed a new strategic plan which looks beyond the narrow borders of NCUA to consider issues that will have a significant impact on the credit union community. As a result, we have a strategic plan that looks at ways NCUA can remove barriers to credit unions facing specific challenges, without relinquishing a firm hold on safety and soundness. Practically speaking, as we mention in this performance report, it means that we have eliminated some performance goals and added new ones.

As we work with this new strategic plan and the implementing plan for 2000, we will keep in mind the following:

⇒ Cooperation and coordination between regulators can achieve results. We hope to parlay the Y2K model to deal with other common challenges, particularly those in the technology area. For instance, rather than compete with each other for the limited number of skilled "technocrats" why not share their expertise.

⇒ While data collection is critical, it is possible to over focus on collecting data at the expense of using that data to modify strategic approaches.

⇒ Perfect data is less important than data which may be less than perfect, but still useful because it is more timely and still indicative of trends.

⇒ Although it is tempting to focus process-oriented measures because they are comfortably NCUA controllable, often they are not truly relevant to what we are trying to accomplish.

⇒ Better to be uncomfortable and rely on balancing measures when one or more measures are less than perfect. An indirect, or surrogate measure, may still be a better way to measure results.

⇒ Balancing strategies may be needed to avoid "unintended consequences."

⇒ The agency, as a whole, is responsible for accomplishing a particular performance goal. Individual offices, contributing to goal accomplishment, should focus on taking action as outlined in the annual plan and their operating plans.

⇒ For the most part, avoid individual office focus on the performance measure. This is particularly important when dealing with in-direct or surrogate measures.

⇒ If goals are set, avoid arbitrary assignment of identical goals. Take the time to evaluate individual regional/office circumstances.

⇒ Although tempting (and we did quite a bit of it in 1999) trying to develop a performance goal for each organizational segment does not lend itself to an external focus and an improved results orientation. Most results oriented goals are crosscutting internally.

⇒ A traditional functionally oriented organization does not lend itself to an externally focused plan. An individual office head cannot be held accountable for a goal unless he/she has full control over all action plans, resources, etc.

⇒ “Shadow organizations”, cross-functional strategy teams, appear to be the way to implement our strategic plan. These may ultimately replace our traditional, functionally aligned, organizations.